LOW AND MODERATE INCOME RENTAL PROGRAM PROCEDURAL MANUAL (LMIR)

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An equal opportunity employer.

This information will be made available in alternative format upon request.

Introduction

Mission Statement

Minnesota Housing's mission is to finance and advance affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities.

Background

Minnesota Housing, formerly known as the Minnesota Housing Finance Agency, was established in 1971 by the Minnesota Legislature to finance the construction and rehabilitation of housing for families of low and moderate income. In addition to providing financing for multifamily rental units, single family mortgage loans and home improvement loans and grants, the Agency participates in and administers other programs which assist in increasing or improving affordable housing for Minnesota residents.

Chapter 1 – Program Purpose and Background

The purpose of the Low and Moderate Income Rental program is to provide up to $95 million worth of financing in 2008 and 2009 for housing with rents affordable to low and moderate income households. Long term fixed rate mortgage funds will be provided to finance new construction of rental housing and/or to help stabilize existing properties.

Minnesota Housing (Agency) is interested in providing first mortgage amortizing debt for multifamily rental housing with rents affordable to low and moderate income households. The Agency is requesting development proposals for the acquisition and rehabilitation, refinance or new construction of such housing under its Low and Moderate Income Rental (LMIR) program. Funds are available on an open pipeline basis, subject to availability, as well as in conjunction with the annual Consolidated Request for Proposals which is generally advertised in the spring of each year, with awards announced in October of each year. The LMIR program may be used in conjunction with HOME funds, city participation, federal Housing Tax Credits, or other funding sources, thereby providing rents affordable to low and moderate income households.

All proposals must be submitted in person or by certified mail (return receipt requested). Anyone submitting an application in person must request a receipt. Directions for applying and the application materials are found in the Multifamily Consolidated Request for Proposal Guide.

Although this program is open statewide, it is the sponsor's responsibility to provide adequate information to demonstrate that the number of units and rent levels proposed are marketable in the community being served.

Program Contacts

Contact Julie LaSota at (651)296-9827 or Ted Tulashie at (651)297-3119, (the LMIR Program Administrators), or the Housing Development Officer assigned to your particular development for any questions regarding the Low and Moderate Income Rental (LMIR) program.

Chapter 2 – Concept and Funding Sources

1. Refinance of existing multifamily rental housing:

The Agency may refinance the existing indebtedness of rental property, if refinancing is determined by the Agency to be necessary to reduce housing costs to an affordable level and/or to maintain the supply of affordable housing.

2. Acquisition/rehabilitation of existing multifamily rental housing:

It is envisioned that a significant level of rehabilitation will be required which may necessitate local participation. The Agency is interested in targeting a portion of this resource to the preservation of federally assisted housing.

3. New Construction/conversion proposals:

It is envisioned that resources will be targeted to two basic development types:

- Multifamily developments utilizing federal housing tax credits.
- Mixed-income multifamily developments where at least 20% of the units are affordable to those at 50% of Adjusted Area Median Income, or 40% of the units are affordable to those at 60% of Adjusted Area Median Income, with the balance of the units at Minnesota Housing determined "market" rents.

4. LMIR Funding Sources:

A. Housing Investment Fund:

This is an agency generated non-federally tainted resource. This resource will be targeted toward:

- New construction or acquisition and rehabilitation of family and workforce housing developments when combined with Housing Tax Credits.
- Acquisition and rehabilitation of existing housing, including those developments currently federally assisted.
- Refinance of existing housing to ensure an adequate supply of affordable housing.

The interest rate is set at or near application (see below). Minnesota Housing Current Interest Rates are published on the Minnesota Housing website. Please scroll all the way down to the bottom of the page to the "Multifamily Division" paragraph.

- Rates are locked in the first week in September for LMIR loans in conjunction with the RFP and will be locked until 11/1 the following calendar year (to align with the deadline for carryover applications)
- Open pipeline LMIR loans will be locked at the time of application for 12 months.

B. Federally Tax Exempt Bond Proceeds:

The Agency may issue tax exempt bonds for the acquisition and rehabilitation of existing housing or for the new construction of rental housing with the expectation that the developer will seek the 4% housing tax credits associated with this source of financing. An emphasis will be placed on utilizing this resource for the preservation of federally assisted housing.

Developers/Owners who are considering 4% tax credits for their developments should carry out a preliminary evaluation of their proposal to determine if the proposal will meet minimum eligibility and threshold requirements as called for in the State's Qualified Allocation Plan (QAP). To start, the Agency recommends that Developers/Owners reference Section 9 of the QAP and use the Self-Scoring Worksheet for Selection Points, a points worksheet used in conjunction with the state's Tax Credit Program.
election Points:

It also recommended that you review the Minnesota Bond Statute to make sure you are aware of applicable state requirements.

If, after carrying out a preliminary evaluation, you conclude that your tax exempt bond proposal can satisfy the minimum threshold and pointing requirements for tax credits, we advise you to review the Tax Credit Allocation Procedural Manual and Documents. This important information is in much greater detail for fully evaluating your proposal's potential to access, secure and utilize housing tax credits. In seeking tax credits, a Developer/Owner will ultimately be required to complete and submit to Minnesota Housing a full and complete application package for Housing Tax Credits in conjunction with, and in addition to, any related application packages for Minnesota Housing's loan products.

Chapter 3 – Eligibility Criteria

1. Eligible Sponsors:

- Limited Dividend and Non-Profit Sponsors:

The Agency's mortgage credit review will assure that the sponsor has the ability to cover any revenue shortages. Therefore, non-profit and limited dividend sponsors will be evaluated as to financial capability considering such factors as assets, liquidity, length of time in operation, and previous housing experience. Ownership must be in the form of a single asset entity.

2. Eligible Development:

The program in general is not limited to specific development types; each proposal will be analyzed on a case by case basis. The Agency is willing to discuss a wide range of innovative housing ideas that may involve the use of federal tax credits, HOME, local participation or other funding sources.

- Generally, minimum of twenty-four (24) housing units.
- Qualify under project selection criteria for multi-unit development mortgage loans. These criteria are found in the Multifamily Consolidated Request for Proposal Guide.

3. Agency Fees:

- $250.00 Application fee
- The Agency will assess a Financing Fee of 2% on the first $5 million in financing and 1% on the amount above $5 million. The minimum Financing Fee is $25,000.
- The Agency will assess an Inspection Fee of 1% of the gross construction cost.

4. Income Limits – In effect for the life of the mortgage, unless otherwise noted:

- 40% of the units must be occupied by individuals/families whose income is 60% or less of area median income or 20% of the units must be occupied by individuals/families whose income is 50% or less than area median income which income must be verified at initial occupancy and verified and recertified annually. Refer to the Multifamily Rent and Income Tables.
- 25% of the units may have unrestricted incomes.
- The balance of units must be occupied by tenants with incomes equal to or less than 100% of the area median income.
- Developments financed with multifamily residential bonds must maintain the income and rent limits as long as the mortgage is outstanding, or 15 years, whichever is longer.

- For occupied properties, the borrower will be required to contact each tenant prior to mortgage commitment and have them disclose their income on a tenant income verification form. This information will need to be updated prior to closing to reflect any changes that may occur between commitment and closing.
- For new construction, verification must be completed for each tenant at initial occupancy.

5. Rent Levels – Restrictions in place for the life of the mortgage, unless otherwise noted:

The rent levels will be marketable, taking into consideration the household incomes which must be served, but at a minimum, the rent levels must comply with the following:

- 40% of units affordable to persons at 60% of income; or 20% of units affordable to persons at 50% of income
- The balance of units with rents at Minnesota Housing determined "market".

Refer to the Multifamily Rent and Income Tables.

Chapter 4

Chapter 4 – General Characteristics of First Mortgage Financing

Sponsor:	Limited Dividend* and Non-Profit Sponsors are eligible.	
Amount of Funds Available:	Up to $72 million for first mortgage loans for the '10-'11 biennium. Source of Funds: TE bonds ($30MM), Agency Reserves and/or taxable bonds ($42MM). This program may be jointly processed with HOME funds, city participation, federal tax credits, Economic Development and Housing Challenge Program and/or other funding sources.	
Source of Funds:	Taxable or tax-exempt bonds, Agency Reserves	
Pricing:	TE Bonds:	Actual market rate plus 150 Basis Points.
	Taxable Bonds and/or Agency Reserves:	• Long term, fixed rate loans. Please refer to the Multifamily Division rates published on the Agency's website: http://www.mnhousing.gov/consumers/rates/index.aspx
Eligible Uses:	Refinance, acquisition/rehabilitation, and new construction of multifamily housing (24 units or more). General priority is for family housing.	
Eligible Developments:	Multifamily developments with 24 units or more throughout the state.	
Rent and Income Limits:	40 percent of units occupied by and affordable to persons at 60 percent of area median income ("AMI"); or 20 percent of units occupied by and affordable to persons at 50 percent AMI. 25 percent of the units may have unrestricted incomes. The balance of units must be occupied by tenants with incomes equal to or less than 100 percent AMI, with rents approved by Minnesota Housing.	
Funding Priorities:	For funding priorities, refer to the Multifamily Consolidated Request for Proposal Guide.	
Underwriting Parameters:	LTV:	Maximum 90%
	Debt Coverage Ratio:	1.15 for new construction 1.20 for rehabilitation
	Mgmt & Operating Benchmarks	$350 - $400 / unit / mo. Plus RE Taxes and Reserves
	Replacement Reserves	$300 - $400/unit/year (minimum)
Fees/Costs	Application Fee	$250 – non-refundable
	Origination Fee	2% of Net Mortgage Amount
	Agency Inspection Fee	1% of Gross Construction Costs
	HUD Risk Share MIP	.25% annual fee (determined by Agency)
Application Cycle:	Annual Consolidated RFP and/or Open Pipeline, subject to funding availability (for LMIR loans in conjunction with 9% HTC and funded using Agency reserves) and market (for TE Bond funded loans)	
Regulatory Requirements:	Monthly Operating Reports (submitted electronically) Annual Agency-approved Operating Budgets Property Financials and Inspections Tenant Compliance	
Property Tax Status:	Recent Legislation was enacted that provides significant relief to certain developments where a minimum of 75% of the units meet specific income and rent restrictions. The LMIR Program can assist in making your development eligible under this program. Refer to Low Income Rental Classification (LIRC) on the Minnesota Housing website.	
*Return on Equity:	Maximum of 15% of developer Equity as defined by the Agency.	

Chapter 5 – Underwriting Parameters

1. **Market Analysis:**

   Staff will analyze the proposal to determine whether the unit mix and proposed rents are supportable. An analysis of the stability of the market area, market vacancy rates, current rent levels, and the concentration of Agency loans in the property's market area will be considered.

2. **Rehabilitation Scope of Work:**

   The Agency is interested in financing developments that will remain marketable for the term of the mortgage. In addition to structural considerations, staff will consider, among other things, the appropriateness of the unit mix, functional obsolescence, common area and unit amenities relative to amenities in competing sites, proposed finish materials, energy efficiency and site planning.

3. **Maintenance and Operating Budget:**

   The budget submitted in the application will be reviewed and compared to budgets of comparable Agency financed properties. Agency comparables will be used in the underwriting of the mortgage and used to project long term operating costs to ensure long term financial viability of the development.

4. **Credit Worthiness of Borrower:**

   The Agency, in its evaluation of the borrower's financial acceptability, considers assets, liquidity, length of time in operation, and previous housing experience. Generally, only one development at a time per owner or sponsor will be processed.

5. **Property Management:**

   The Agency recognizes that quality property management is necessary for the long term success of multifamily rental housing. For that reason, the Agency, in its evaluation of the owner's or management agent's qualifications, will consider all previous management experience. Management staff will conduct an on site physical assessment of properties currently managed and the owner and/or agent must also complete an Agency Managing and Marketing Agents Qualifications application.

Chapter 6 – Contract Compliance Plans

1. Policy:

It is the policy of Minnesota Housing to take affirmative action to provide equal opportunity in all of our projects, programs and other endeavors. The Agency's goal is to achieve a client and recipient mix that is representative of the people who live in our state and our communities, so that all employment and contractual benefits that develop as a result of our programs are shared by all Minnesotans. This policy applies to all Agency employees and everyone with whom we do business.

2. Purpose:

The purpose of this Plan is to make the Agency's commitment to act affirmatively to achieve equal opportunity in all facets of its operation clear to both staff and those outside the Agency with whom it does business.

3. Goals:

Our goal is to ensure minority and female business owners equal access to business opportunities on Minnesota Housing financed projects and the presence of minorities and women at all levels on the staffs of the program participants having contractual agreements with Minnesota Housing. The Agency's goal is to ensure that the workforces on the projects and programs it finances reflect demographically the area they are located in. Our goal is to ensure equal business opportunity to minority and female businesses on the projects we finance and equal employment opportunity in the workforces of the firms with whom we sign contractual agreements in which a contractor commits to meet the Agency's employment and business goals. These goals will apply for the length of the contract or the life of the mortgage. The Agency, at its discretion, may set numerical or percentage goals dependent on the location and size of a given project. Current goals will be determined by staff based on the location of the project.

4. Requirements:

The Agency is required to comply with all state, federal and local laws. These requirements are passed on to everyone it does business with either by contractual agreement or Agency policy.

5. Sanctions:

The Agency has the contractual authority to demand full payment of any loan or grant, stop processing any project at any stage, and to cease to do business with anyone that does not follow our affirmative action policies or fail to meet their contractual equal opportunity obligations.

6. Equal Opportunity Laws/Rules:

The operations of Minnesota Housing are regulated by the following Equal Opportunity Laws/Rules:

- Executive Order 11246 (Affirmative Action Requirements, Government Contractors)
- Executive Order 11625 (Minority Business Enterprise)
- The Civil Rights Act. of 1964 (Title VII)
- Equal Employment Act of 1972
- Minnesota Code of Agency Rules (Chapter 2, Sec. 3.012)
- The Americans with Disability Act of 1990
- Section 504 of the Rehabilitation Act of 1973 as amended
- Minnesota Human Rights Act (Section 363.073)
- Fair Housing Amendments Act of 1988

Refer to the Contract Compliance Plan.

Chapter 7 – Agency Fair Housing Policy

It is the policy of the Agency to provide for fair housing opportunity in all its programs affirmatively so that individuals of similar income levels have equal access to Agency programs regardless of race, color, creed, religion, national origin, sex, marital status with regard to receipt of public assistance, disability or family status.

The Agency's fair housing policy incorporates the affirmative fair housing marketing practices as addressed in Title VIII of the Civil Rights Act of 1968 as amended by the Fair Housing Amendment Act of 1988 which states that it is unlawful to discriminate in the sale, rental, and financing of housing based on race, color, religion, sex, handicap, familial status or national origin.

In part, Title VIII makes it unlawful to: (i) sell or lease, or in providing services or facilities because of race, etc.; (ii) make or publish (or have anyone else make or publish) advertisements that indicate preferences or limitations based on race, etc.; and (iii) tell a person that because of race, etc., a dwelling is not available when it is.

Title VIII of the Civil Rights Act of 1968 was amended by the Fair Housing Amendment Act of 1988 to include the following provisions: The new law (i) bars discrimination in the sale or rental of housing on the basis of a handicap, and requires in design and construction of new multifamily dwellings with four or more units to meet certain adaptability and accessibility requirements; (ii) bars discrimination in the sale or rental of housing because a family has children, but exempts certain types of buildings that house older persons; (iii) clarifies that the current use of addictive or controlled substances is not a handicap.

All Agency programs require owners to market affirmatively, using specific steps geared to the particular program. These steps include:

- Outreach to all groups protected by the Civil Rights Act of 1968, amended in 1988;
- Affirmative Marketing strategy that reaches protected groups;
- Self-analysis to make sure all steps are non-discriminatory; and
- Upon request by the Agency, the submission of reports and documents that confirm the owner's fair housing efforts.

Participants will be expected to use affirmative fair housing marketing practices in soliciting renters, determining eligibility, and concluding all transactions.
Refer to the Minnesota Housing Affirmative Fair Housing Marketing Plan.